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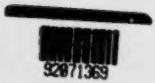

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Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended January 31, 1992.

OR

( ) Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. 0-6949

KRELITZ INDUSTRIES, INC.
(Exact name of Registrant as specified in its charter)

Minnesota	41-0415180
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

9800 Bren Road East, Minnetonka, MN	55343
(Address of principal executive offices)	(Zip Code)

(612) 936-0401
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes __X__ No ____.

The number of shares outstanding of the Registrant's common stock as of March 12, 1992 was:

Common Stock - 3,473,581 shares

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KRELITZ INDUSTRIES, INC.

Index

Part 1 - FINANCIAL INFORMATION

		Page Number
Item 1 -	Financial Statements	
	Consolidated Balance Sheets January 31, 1992 (Unaudited) and April 27, 1991	3
	Consolidated Statements of Income (Loss) for the three and nine months ended January 31, 1992 and 1991 (Unaudited)	4
	Consolidated Statements of Cash Flows for the nine months ended January 31, 1992 and 1991 (Unaudited)	5
	Notes to Consolidated Financial Statements (Unaudited)	6 - 9
Item 2 -	Management's Discussion and Analysis of Financial Condition and Results of Operations	10 - 13

Part II - OTHER INFORMATION

Item 1 -	Legal Proceedings	14
Item 4 -	Submission of Matters to a Vote of Security Holders	14
Item 6 -	Exhibits and Reports on Form 8-K	14
Signatures		15

KRELITZ INDUSTRIES, INC.
FORM 10-Q
For the Nine Months Ended January 31, 1992

Part I

CONSOLIDATED BALANCE SHEETS

Assets	January 31, 1992 (Unaudited)	April 27, 1991
Current assets:		
Accounts receivable, less allowances for discounts and doubtful accounts (January 31, 1992, $363,000; April 27, 1991, $365,000)	$14,403,317	$15,120,917
Inventories	20,737,430	18,293,706
Note receivable, stockholders, current portion	22,104	20,628
Income taxes receivable		1,261,464
Prepaid expenses	223,374	186,368
Deferred income taxes	253,700	253,700
Total current assets	35,639,925	35,136,783
Property and equipment, at cost	8,228,120	7,234,206
Less accumulated depreciation and amortization	(3,870,484)	(3,129,475)
Property and equipment, net	4,357,636	4,104,731
Net assets held for sale	1,077,683	1,183,997
Accounts and note receivable, stockholders, less current portion	61,205	82,696
Income taxes receivable	335,196	
Other assets	761,971	264,586
Total assets	$42,233,616	$40,772,793

Liabilities & Stockholders' Equity		
Current liabilities:		
Accounts payable, trade, including cash overdrafts (January 31, 1992, $2,822,931; April 27, 1991, $1,251,056)	$22,095,268	$16,330,413
Current portion of long-term debt	31,612	29,185
Current portion of capital lease obligations	288,379	271,347
Accrued expenses	282,642	526,210
Total current liabilities	22,698,101	17,157,155
Long-term debt, less current portion	15,981,913	18,833,585
Capital lease obligations, less current portion	520,823	739,295
Deferred income taxes	155,300	155,300
Total liabilities	39,356,137	36,885,335
Stockholders' equity:		
Common stock, par value $1 per share; authorized shares, 7,000,000; issued shares, 3,473,581	3,473,581	3,473,581
Retained earnings (accumulated deficit)	(596,102)	413,877
Total stockholders' equity	2,877,479	3,887,458
Total liabilities & stockholders' equity	$42,233,616	$40,772,793

See accompanying notes to consolidated financial statements.

KRELITZ INDUSTRIES, INC.
Part I, Continued

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the Three and Nine Months Ended January 31, 1992 and 1991 (Unaudited)

	For Three Months Ended		For Nine Months Ended	
	January 31, 1992	January 31, 1991	January 31, 1992	January 31, 199
Net sales	$63,368,897	$67,991,253	$186,918,188	$195,598,045
Cost of goods sold	60,149,463	63,947,690	177,302,577	183,801,236
Gross profit	3,219,434	4,043,563	9,615,611	11,796,809
Selling, general and administrative expenses	3,421,414	3,268,032	10,295,225	9,395,026
Operating income (loss)	(201,980)	775,531	(679,614)	2,401,783
Interest expense	479,626	623,575	1,391,974	1,501,229
Other income, net	(516,481)	(66,656)	(560,784)	(222,466
Income (loss) from continuing operations before income taxes (benefit)	(167,125)	218,614	(1,510,804)	1,123,020
Income taxes (benefit)	(56,000)	103,000	(501,000)	505,000
Income (loss) from continuing operations	(111,125)	115,614	(1,009,804)	618,020
Gain on disposal of discontinued operations, net of taxes				17,352
Net income (loss)	$ (111,125)	$ 115,614	$ (1,009,804)	$ 635,372
Income (loss) per share of common stock:				
Continuing operations	$(.03)	$ .03	$(.29)	$ .18
Discontinued operations				
Net income (loss)	$(.03)	$ .03	$(.29)	$ .18

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash
For the Nine Months Ended January 31, 1992 and 1991 (Unaudited)

	For Nine Months Ended	
	January 31, 1992	January 31, 1991
Cash flows from operations:		
Income (loss) from continuing operations	$ (1,009,804)	$ 618,020
Depreciation and amortization	780,035	405,387
Gain on sale of real estate	(499,144)	
Deferred income taxes		(20,200)
Cash provided by (used in) continuing operations	(728,913)	1,003,207
Income from discontinued operations		17,355
Depreciation and amortization		24,613
Gain on disposition of assets		(138,470)
Cash used in discontinued operations		(96,502)
Cash provided by (used in) operations	(728,913)	906,705
Change in assets and liabilities:		
Accounts receivable	717,600	(5,192,906)
Inventories	(2,443,724)	(14,718,367)
Income taxes receivable	926,268	
Prepaid expenses	(83,979)	16,545
Other assets	(97,385)	29,662
Accounts payable	4,192,980	4,582,039
Accrued expenses	(263,568)	269,718
Net cash provided by (used in) operations	2,239,279	(14,106,604)
Cash flows used in investing activities:		
Proceeds from sale of real estate	213,405	
Proceeds from disposition of discontinued operations		300,000
Expenditures for property and equipment	(993,914)	(1,967,260)
Net cash used in investing activities	(780,509)	(1,667,260)
Cash flows from financing activities:		
Long-term debt borrowings	190,215,252	212,089,734
Long-term debt payments	(193,664,497)	(197,241,947)
Net change in cash overdrafts	1,571,875	1,010,740
Payments on capital lease obligations	(201,240)	(103,900)
Reduction in note receivable, stockholder	20,015	19,237
Payments for fractional shares	(175)	
Net cash provided by (used in) financing activities	(1,658,770)	15,773,864
Cash, beginning and end of period	$ -0-	$ -0-

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The consolidated financial statements included in this Form 10-Q have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed, or omitted, pursuant to such rules and regulations, although management believes the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 1991 Annual Report on Form 10-K.

The consolidated financial statements presented herein as of January 31, 1992 and for the three and nine months then ended reflect, in the opinion of management, all material adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the consolidated financial position, consolidated results of operations and the consolidated cash flows for the interim period.

The consolidated financial statements include the accounts of Krelitz Industries, Inc. and its wholly owned subsidiary, UPC, Inc., formerly Ulmer Pharmacal Company, formerly James Phillips Company. See Note 2 regarding the Company's divestiture of certain net assets of the subsidiary; accordingly, it has been presented as discontinued operations in the accompanying financial statements. All significant intercompany transactions and balances have been eliminated in consolidation.

2. Discontinued Operations

During fiscal year 1990, the Company's Board of Directors approved a restructuring program whereby certain selected businesses, which were not meeting financial performance objectives, would be sold. As part of this program, accounts receivable, inventories and equipment related to the Company's medical and surgical supply distributor were sold in April 1990. In addition, in August 1990, the accounts receivable, inventories and equipment related to the Company's proprietary skin care products business were sold. The Company has discontinued its activities in these lines of business. These discontinued business segments are presented as "discontinued operations" in the accompanying consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), Continued

2. Discontinued Operations, Continued

The net assets of the discontinued operations included in the accompanying consolidated balance sheets as net assets held for sale were as follows:

	Dollars in Thousands	
	January 31, 1992	April 27, 1991
Property and Equipment	$1,078	$1,114
	$1,078	$1,114

These assets include land and a building which the Company expects to sell for amounts in excess of their book value.

3. Inventories

Substantially all inventories are valued at the lower of cost or market, with cost determined on the last-in, first-out (LIFO) basis. If the first-in, first-out (FIFO) method had been used, inventories at January 31, 1992 and April 27, 1991 would have been higher than reported by $7,655,000 and $7,018,000, respectively.

4. Income Per Share Data

Income (loss) per share of common stock is computed by dividing income (loss) data by the weighted average number of common shares outstanding during the period, effected for the stock split, as discussed in Note 9 (3,473,581 for fiscal year 1992 and fiscal year 1991).

5. Long-Term Debt

The Company had available a $24,000,000 bank line of credit at January 31, 1992, at prime plus 1.5 percent, of which $8,247,038 was unused. The line is subject to cancellation by the bank following 375 days written notice, and is collateralized by substantially all accounts receivable, inventories, and property and equipment owned by the Company.

As of January 31, 1992, the Company was in default with respect to certain of the covenants of its line of credit agreement. Subsequently, the bank agreed to waive events of default. The most restrictive amended covenant requires the Company to maintain a minimum net worth of $2,200,000 through May 2, 1992.

The line of credit does not have a fixed maturity date and, accordingly, is only required to be repaid if called by the bank. Under this agreement, the Company is permitted to pay stock dividends and cash dividends are permitted to the extent they do not exceed 50 percent of net income in any fiscal year, and, in any event, are not more than $500,000 in any fiscal year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), Continued

6. Income Taxes

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. This standard will significantly change the accounting and reporting of income taxes and requires adoption by the Company no later than fiscal 1994. The Company does not plan to adopt the new standard until fiscal 1993 or 1994 and has not decided which implementation alternative (recording the cumulative effect of the new rules entirely in the year of implementation or restating prior year financial statements) it will utilize. Because of uncertainty as to the requirements of the new standard due to reconsideration by the Board and because of the choice of implementation alternatives, the effects of the new standard on the Company's financial position have not been determined in detail; however, they are not expected to be significant.

The effective tax rates are 33 percent and 45 percent for the nine month periods ended January 31, 1992 and 1991, respectively. This rate reflects both the federal statutory tax rates and alternative minimum tax in the State of Minnesota.

7. Litigation

The Company is involved in certain product liability claims arising from a product sold by Physicians and Hospitals Supply Company ("P & H"), which was acquired in 1983 by the Company's wholly-owned subsidiary, UPC, Inc. P & H and/or one of its divisions (Ulmer) have been named, along with more than 200 other drug manufacturers and distributors, as defendants in numerous personal injury cases involving the drug diethylstilbestrol ("DES"). In each of these cases, the plaintiffs seek to recover from the defendants, jointly or severally, substantial compensation and punitive damages for injuries allegedly sustained because of exposure to DES.

P & H and/or UPC, Inc. have denied all liability and are vigorously defending the actions in which they have been named. Although P & H and/or UPC, Inc. have product liability insurance, the extent of the coverage available under such insurance is uncertain at this time.

The Company is unable to determine the amount of losses, if any, that it will sustain as a result of the DES litigation. It does believe, however, in view of the small quantity of DES which it sold and the possible availability of insurance coverage that any losses incurred should not be material to its financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), Continued

8. Supplemental Cash Flow Information

Cash paid for interest and income taxes for both continuing and discontinued operations is as follows:

	Dollars in Thousands	
	January 31, 1992	January 31, 1991
Interest	$1,392	$1,581
Income Taxes		$ 550

On December 31, 1991, the Company obtained a note receivable of $400,000 for a portion of the proceeds due from the sale of real estate. (See Note 10 of Notes to Consolidated Financial Statements.)

In fiscal year 1991, the Company retroactively changed its method of reporting cash overdrafts from negative cash equivalents to a financing activity for purposes of the consolidated statements of cash flows. Accordingly, the January 31, 1991 consolidated statement of cash flows has been restated to reflect this change.

9. Common Stock:

In October 1991, the Company's Board of Directors authorized a three-for-two stock split in the form of a 50% stock dividend. The stock dividend was distributed on November 15, 1991, to shareholders of record on November 1, 1991. The restatement for this split, as of October 31, 1991, resulted in an additional 1,157,819 shares of common stock being issued. Fractional shares were paid in cash based on the closing price on the record date adjusted for the stock split. All stock and earnings per share amounts have been restated retroactively for the stock split.

10. Sale of Real Estate:

On December 31, 1991, the Company recorded a $499,000 gain on the sale of real estate property located at 509 Washington Avenue South, Minneapolis, Minnesota. Proceeds from the sale were $650,000 received in the form of cash and a $400,000 note receivable. The note is due December 31, 1994 and bears interest at 10%, with the first interest payment due February 1, 1992.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations - First Nine Months

The discussion and analysis that follows reviews the results of operations of the Company's continuing business segments, exclusive of discontinued operations. Note 2 of Notes to Consolidated Financial Statements discloses information related to discontinued operations.

Net sales during the first nine months of fiscal 1992 were $186,918,000, a decrease of $8,680,000, or 4.4%, from the first nine months of fiscal 1991. Sales increases from existing and new customers in the drug distribution business of approximately $23,900,000 did not fully mitigate the previously reported loss of a significant customer.

Gross profit was $9,616,000, or 5.1% of net sales, during the nine months ended January 31, 1992 versus 6.0% for the nine months ended January 31, 1991. Gross profit margins reflect the intense competition in the industries in which the Company operates. Growth in the hospital business, which is typically high volume, low margin business, has contributed to lowering gross profit margins. In addition, the contribution to gross profit available from purchasing in anticipation of vendor price increases was reduced during the second and third quarters. The frequency and magnitude of certain vendor price increases has lessened as compared to last year.

The high volume nature of the Company's business and the use of gross profit percentages during interim periods to estimate cost of goods sold will typically result in adjustments included in fourth quarter operating results to reflect the recording of actual inventory and related accounts based on annual physical inventories. The Company performed third quarter physical inventories and gross profit margins as reported reflect actual results based upon these reconciled inventories at January 31, 1992. The gross profit percentage for the nine months ended January 31, 1992 of 5.1% compares to a gross profit of 4.9% for fiscal year 1991.

The use of the LIFO method of inventory valuation increased the cost of goods sold during the nine months ended January 31, 1992 and 1991 by $637,000 and $938,000, respectively, over cost amounts determined on a FIFO basis. The LIFO method was adopted to more closely match current costs with revenues during periods of inflation. Under LIFO inventory accounting, the cost of goods sold is based on the most recent inventory costs rather than those from an earlier period. Although inflation has lessened in recent years, the Company continues to experience some product price increases.

Selling, general and administrative expenses totalled $10,295,000 or 5.5% of net sales, for the nine months ended January 31, 1992, an increase of $900,000 over the nine months ended January 31, 1991. These expenses included warehouse and delivery costs associated with sales growth in connection with existing and new customers and depreciation and amortization on management information services expenditures which were incurred to improve upon technology utilization.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Continued

Results of Operations - First Nine Months, Continued

Interest expense was $1,392,000 during the first nine months of fiscal 1992 versus $1,501,000 for the first nine months of fiscal 1991. Interest expense is expected to remain a critical item in the future. The decrease is a result of lower interest rates and management's continued focus on asset management, which resulted in an increase in inventory turnover and improvement in accounts receivable days' sales outstanding (See Financial Position/Liquidity).

The decrease in gross profit margins combined with increased operating expenses resulted in a loss from continuing operations of $(1,010,000), or $(.29) per share, for the first nine months of fiscal 1992. This compares to income of $618,000, or $.18 per share, for the first nine months of fiscal 1991. The LIFO method of accounting for inventories increased the loss by $427,000, or $.12 per share, in the nine months ended January 31, 1992, whereas the LIFO method reduced income by $521,000, or $.15 per share, in the comparable period a year ago.

In February 1992, the Financial Accounting Standards Board issued its new standard for accounting for income taxes. This standard will significantly change the accounting and reporting of income taxes and requires adoption by the Company no later than fiscal 1994. The Company does not plan to adopt the new standard until fiscal 1993 or 1994 and has not decided which implementation alternative (recording the cumulative effect of the new rules entirely in the year of implementation or restating prior year financial statements) it will utilize. Because of uncertainty as to the requirements of the new standard due to reconsideration by the Board and because of the choice of implementation alternatives, the effects of the new standard on the Company's financial position have not been determined in detail, however, they are not expected to be significant. (See Note 6 of Notes to Consolidated Financial Statements.)

Results of Operations - Third Quarter

Net sales during the third quarter of fiscal 1992 were $63,369,000, representing a decrease of $4,622,000, or 6.8%, from the third quarter of fiscal 1991. Sales growth with new and existing customers did not fully mitigate the previously reported loss of a significant customer.

Gross profit was $3,219,000, or 5.1% of net sales during the quarter ended January 31, 1992. This compares to 5.9% for the quarter ended January 31, 1991 and 4.9% for fiscal year 1991.

The use of the LIFO method of inventory valuation increased the cost of goods sold by $90,000 and $313,000 during the third quarter of fiscal 1992 and 1991, respectively, over cost amounts determined on a FIFO basis.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Continued

Results of Operations - Third Quarter, Continued

Selling, general and administrative expenses totalled $3,421,000, or 5.4% of net sales, for the third quarter ended January 31, 1992, an increase of $153,000 for the same period one year earlier. These expenses were 4.8% of net sales for the third quarter ended January 31, 1991.

Interest expense was $480,000 during the third quarter of fiscal 1992 versus $624,000 for the third quarter of fiscal 1991. In view of the Company's current debt level and high ratio of debt to equity, interest expense is expected to remain a critical item in the future.

Other income was $514,000 for the third quarter ended January 31, 1992, as compared to $67,000 for the third quarter ended January 31, 1991. This increase was due to the gain on sale of real estate. (See Note 10 of Notes to Consolidated Financial Statements.)

Operations resulted in net loss from continuing operations of $(111,000), or $(.03) per share, for the third quarter of fiscal 1992. This compares to income of $116,000, or $.03 per share, for the third quarter of fiscal 1991. The LIFO method of accounting for inventories reduced reported earnings by $60,000 or $.02 per share, in the quarter ended January 31, 1992 versus $172,000, or $.05 per share, in the comparable period a year ago.

Financial Position/Liquidity

The Company's balance sheet reflects a strong liquidity position. At January 31, 1992, current assets exceeded current liabilities by $12,942,000. This current ratio of 1.6 compares to a current ratio of 2.0 at April 27, 1991. This decrease is primarily a function of financing inventory through better utilization of trade credit. While trade payables have increased since year end, the Company continues to take advantage of all vendor discounts.

Inventory turnover for the nine months ended January 31, 1992 was 12 times as compared to 9.9 times for the fiscal year ended April 27, 1991. Accounts receivable days' sales outstanding for the nine months ended January 31, 1992 was 19 days as compared to 24 days for fiscal year end April 27, 1991. Merchandise inventories continue to turn at levels higher than industry norms and days' sales are less than industry averages.

Capital expenditures during the first nine months of fiscal 1992 totalled approximately $994,000 compared to $2,441,000 during the first nine months of fiscal 1991. The majority of these expenditures were for systems development incurred as part of a major replacement and improvement of the Company's management information system. The expenditures were funded with borrowings against the Company's line of credit.

The Company continues to be dependent upon borrowings against its bank line of credit to finance its operations. The Company's current line of credit for borrowings is $24,000,000 with an interest rate of prime plus 1.5 percent. Terms and conditions of the agreement are discussed in Note 5 of Notes to Consolidated Financial Statements. Borrowings against the line of credit were $15,753,000 at January 31, 1992 versus $18,578,000 at April 27, 1991.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Continued

Results of Operations - Third Quarter, Continued

Financial Position/Liquidity, Continued

As of January 31, 1992, the Company was in default with respect to certain of the covenants of its line of credit agreement. Subsequently, waivers of certain covenants in default were received and the most restrictive covenant was amended to an amount with which the Company believes it will be in compliance at year-end.

KRELITZ INDUSTRIES, INC.

PART II

Item 1. Legal Proceedings

Other than as indicated in Note 7 of Notes to Consolidated Financial Statements, the Registrant is not a party to any legal proceedings involving a claim for damages exceeding 10% of the current assets of the Registrant, that are not adequately covered by insurance.

Item 4. Submission of Matters to a Vote of Security Holders

The material called for by this item is incorporated herein by reference to the Proxy Statement for the Registrant's Annual Meeting held on October 10, 1991.

Item 6. Exhibits and Reports on Form 8-K

The Registrant was not required to file any reports on Form 8-K for the three months ended January 31, 1992.

KRELITZ INDUSTRIES, INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KRELITZ INDUSTRIES, INC.

Date: March 13, 1992

By _____
Barry M. Krelitz
President and CEO

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature:	Title:	Date:
_____ Barry M. Krelitz	President, Chief Executive Officer, Treasurer and Director	March 13, 1992
_____ Dennis J. Allinghas	Senior Vice President CFO, Asst. Treasurer and Director	March 13, 1992
_____ Mary Jo Murphy	Controller and Chief Accounting Officer	March 13, 1992